

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
(317) 232-9855

**FISCAL IMPACT STATEMENT**

**LS 7176**

**BILL NUMBER:** HB 1871

**NOTE PREPARED:** Jan 27, 2003

**BILL AMENDED:**

**SUBJECT:** Tax Amnesty Program.

**FIRST AUTHOR:** Rep. Weinzapfel

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State

**Summary of Legislation:** This bill authorizes the Department of State Revenue to suspend collection efforts against taxpayers who file a tax amnesty return and pay delinquent taxes during the amnesty period. The bill provides that fees and interest ordinarily added to the amount of delinquent taxes may not be imposed during the amnesty period. It also provides that an additional collection fee may be imposed if a taxpayer who has not filed a tax return for a reporting period covered by the tax amnesty program fails to file a tax amnesty return.

**Effective Date:** July 1, 2003.

**Explanation of State Expenditures:** Effective tax amnesty programs have used marketing campaigns to reach affected taxpayers. For example, Kentucky appropriated \$1 M for advertising its tax amnesty program and sent prefilled amnesty applications to taxpayers with tax liabilities. Of the applications received, 86% were prefilled. Also, states have found that employees of the revenue agency have difficulty performing routine duties in addition to working on the amnesty program. The bill does not appropriate funds for advertising or for additional staff.

**Explanation of State Revenues:** Under the bill, taxpayer liabilities for the taxable periods ending after December 31, 1987, and before January 1, 2003, would qualify for amnesty in regards to penalty and interest. The taxpayer would be required to file an application for amnesty and pay the delinquent qualified taxes after December 31, 2003, and before May 1, 2004. However, the Department of State Revenue could enter into an agreement for installment payments of taxes due. In addition, a taxpayer who failed to apply for amnesty for a period covered by the amnesty would have to pay the tax due, penalty, and interest, and an additional penalty equal to 25% of the taxpayer's delinquent taxes.

A tax amnesty applies to taxpayers who filed a return, but under-reported income, misapplied credits or deductions, or did not file a subsequent return (accounts receivable) and to taxpayers who have never filed

(nonfilers). Where collection of account receivable takes away from future revenue, new tax filers may add to future state revenue. Therefore, a tax amnesty program performs two functions: it speeds up collections of known delinquent taxes, and it could encourage taxpayers who never filed before to file without penalty. Although an amnesty program may speed up the collection of revenue due, the state will forgo any potential collection of interest or penalties.

Revenue from receivables is known to the extent that a taxpayer has been audited. The Department of State Revenue uses best information available to estimate the amount due from taxpayers who have not filed a current return, but who filed in the past. Based on information from the Department of State Revenue, the following receivables estimates can be made:

Total Liabilities	.....	\$598,689,520
Uncollectable Liabilities	.....	<u>15,672,670</u>
Collectable Liabilities*	.....	<u>\$583,016,850</u>
Penalties (10%)	.....	\$58,301,685
Interest (7% compounded)	.....	\$195,446,067

\*A portion of this amount is best available information estimates and may overstate the amount available for collection because of high estimated tax liability or no liability existing.

Between CY 2001 and 2003, 12 states have offered tax amnesty programs. A sample of the states shows that, in general, the states received more income from a tax amnesty than anticipated when accounts receivable were strongly pursued. Experience would indicate that nonfilers make up from 1% to 5% of the total revenues when a previous amnesty has been offered.

*Background:* The 2002 Kentucky Tax Amnesty Act generated approximately \$107 M from collectable liabilities. As of June 2002 they reported \$770.3 M in accounts receivables. Their tax amnesty program was implemented between August 1, 2002, through September 30, 2002, and included all tax periods after December 1, 1987, to December 1, 2001. Kentucky created two types of amnesty applications. A prefilled application, which pulled tax liability and delinquency information from the Cabinet's accounts, were mailed to 100,152 qualified taxpayers. A blank amnesty application was developed to accommodate other taxpayers. Kentucky utilized an aggressive advertising campaign to promote this program. As of November 20, 2002, they received 21,500 applications and collected \$107 M in payments. Total audit revenues collected were \$46 M, accelerated revenue (collections on existing notices or on amended periods) totaled \$29.9 M, and \$31 M was considered new revenue (revenue not expected or collectible in the foreseeable future). According to the Kentucky Revenue Cabinet, 86% of the collections came from business entities and 14% were from individual taxpayers. They also reported that 45% of the collections came from in-state residents and 55% came from taxpayers who resided out-of-state.

In 1990, Connecticut conducted an amnesty program which generated \$54 M. In 1996, they conducted a second amnesty program which generated \$46.2 M from 14,920 applications approved. They reported that 42.5% of the applications in 1996 were from new filers, 7.9% were under-reporters and 49.6% were accounts receivables. Approximately \$18 M was collected from Sales and Use Taxes, \$10.8 M from personal income taxes, and \$10.5 M from corporate income taxes.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:**

**Information Sources:** Rob Wysock, Connecticut Office of Fiscal Analysis, 860-240-0200; Mac Gilliam, Kentucky Revenue Cabinet, 502-564-4921; Hans Olofsson, Arizona Fiscal Agency, 602-542-5491; Jay Wortley, Michigan Senate Fiscal Agency, 517-373-2768; Federation of Tax Administrators, [www.taxadmin.org](http://www.taxadmin.org).

**Fiscal Analyst:** Karen Firestone, 317-234-2106